I am delighted to report to you on the condition of your company.

Let me begin by giving credit to our employees. Due largely to their continued dedication, we are showing that an energy company can build a bright future in a difficult environment.

This past year brought more than its share of challenges, from a weak economy to an exceptionally cool summer. Demand for electricity and gas was down yet again.

Our employees responded in exemplary fashion. They found many ways to achieve new levels of operational excellence and significant cost savings across the board.

Let’s start with PSEG Power, our wholesale energy supply business and largest source of earnings.

We are benefiting from superb nuclear operations.

This past October, our Salem Unit 2 completed its longest run ever. This unit was online continuously for 515 days and nights, producing safe, reliable, economic and green energy, to the benefit of our customers, the state of New Jersey and the surrounding region.

In 2009, our nuclear units ran 93 percent of the time and combined to produce more than half of our generation output.

My hat is off to our fossil fuel units, too.

Our coal units substantially improved their operations, our combined-cycle units ran a lot more, and our peaking units were consistently available when called upon to run.

Meanwhile, PSE&G, our NJ utility, has continued to be a top performer, delivering best-in-class reliability at lower-than-average rates.

For the fourth time in five years, PSE&G received the Reliability One award as the nation’s most reliable electric utility.

PSE&G was honored for the eighth straight year as the region’s most reliable utility.
And, reflecting superb gas operations, PSE&G was recently recognized by J.D. Power and Associates for being highest in satisfaction with business customers in the eastern U.S.

The combination of service and value has enabled us to build trust over the years with our customers and the wider community.

Largely because of this trust, the state of New Jersey has allowed PSE&G to move ahead with a $5 billion investment program to further improve reliability, create jobs and bring the benefits of energy efficiency and green energy to our customers.

At PSEG Energy Holdings, we have reduced risk through the sale of many of our leveraged leases while pursuing attractive opportunities in renewable energy.

Even while making these investments throughout 2009, we further strengthened our balance sheet, as our businesses have continued to generate healthy cash flows and income.

We delivered operating earnings of $3.12 per share in 2009, a three percent improvement over the prior year.

And, with our dividend, we have continued to return cash to our shareholders.

In February, we increased our dividend to an indicated annual rate of $1.37 per share from $1.33 per share.

For seven consecutive years, we have increased our dividend. PSEG has paid annual dividends on an uninterrupted basis since 1907 -- one of the longest records of any U.S. company.

Looking ahead, we are positioning PSEG for a rapidly changing energy future.

We have gained increasing recognition for leadership in promoting low-carbon policies and legislation.

In 2009, the U.S. Environmental Protection Agency commended our voluntary efforts to reduce carbon. In addition, PSEG was included for the second straight year in the Dow Jones Sustainability and the Carbon Disclosure Leadership indexes, while also being named to the Bloomberg Carbon Innovation Index.

Any company can speak about its commitment to green energy. We back our words with action.

We are showing that utilities can be instrumental in efforts to expand access to clean energy and boost the economy.
In 2009, PSE&G received regulatory approval for nearly $1.5 billion in green and accelerated infrastructure investments.

These investments are providing benefits such as clean air and good jobs to brighten New Jersey’s future while allowing for reasonable returns for our shareholders.

The $1.5 billion in investment falls in three main areas:

First, Energy Efficiency: PSE&G is investing approximately $200 million in conservation programs.

This effort is improving access to energy efficiency for a broad range of customers, including low-income urban residents, small businesses, hospitals and municipalities.

Second, PSE&G has more than $600 million in initiatives supporting solar energy development in New Jersey.

This includes our Solar Loan program, which is helping customers to finance solar energy systems on homes, businesses and municipal buildings.

In addition, we are investing directly in solar through our Solar 4 All program to bring 80 megawatts of grid-connected solar energy to all our customers and, yet again, create more green jobs.

As part of this effort, we are installing solar units on up to 200,000 utility poles and street lights in about 300 New Jersey communities.

This project is helping to make solar energy about as local as you can get, even if your home doesn’t have solar panels.

Third, PSE&G is investing nearly $700 million in electric and gas system upgrades to provide a stimulus for New Jersey’s economy while also improving reliability. This effort is underway and is expected to generate some 900 new jobs.

But we are not stopping there. We have transmission projects that address needs for a stronger grid to assure reliability.

In February, PSE&G received approval from the New Jersey Board of Public Utilities to construct the Susquehanna-to-Roseland transmission line, which is required to prevent the possibility of brownouts and blackouts.

Due to its critical reliability role, this project has received federal approval for incentive rates.

Reliability is fundamental. It goes with providing essential services for millions of people.
We are also working hard to improve customer service.

We have a new customer information system. The changeover from the old system was the equivalent of replacing a 25-year-old computer with a modern one with far greater capabilities to help us serve customers better.

Even though there are issues with any new system, we have largely worked them out.

More than 500,000 customers have signed up for a PSE&G Web account.

If you are a customer, and haven’t yet done so, we encourage you to take advantage of the power of the Web at pseg.com.

There you can pay bills, sign up for paperless billing, schedule service appointments, conduct a personalized home energy analysis and much more.

As a shareholder, you should also be interested in these enhancements because we are not only improving customer service, but lowering costs.

Our disciplined investment strategy is not limited to the Utility.

Let me touch on three aspects for the power generation side of our business.

First, we are working to ensure our nuclear units remain a vital resource long into the future.

Various improvements in recent years enabled us to add more than 170 megawatts of nuclear generating capacity. We are continuing these efforts, with the goal of adding another 165 megawatts over the next 5 to 6 years.

In 2009, we filed for a 20-year license extension for our Salem and Hope Creek nuclear units in southern New Jersey.

We plan to pursue an early site permit for a possible additional nuclear unit alongside these facilities. New nuclear is a long-term proposition. At this early stage, our aim is to keep our options open.

Second, we are investing more than $1 billion in state-of-the-art technology at our coal units to achieve dramatic reductions in emissions.

In 2010, we expect to complete installations at our Hudson and Mercer generating stations in New Jersey.

Third, we are planning to build new peaking units in New Jersey and Connecticut.
This past year, we reached an agreement with the city of New Haven, Connecticut, allowing us to move forward with 130 megawatts of new gas fired generation at our existing New Haven Harbor station. The agreement reflects our strong commitment to the environment and communities where we operate.

Our third business, PSEG Energy Holdings, has renewable energy efforts related to offshore wind, solar and compressed air energy storage.

Working closely with the state of New Jersey, we are assessing the viability of developing a 350-megawatt wind farm 16 miles off the southern New Jersey coast.

We are pursuing opportunities in solar energy outside of our utility service territory.

In 2009, we got the ball rolling with a two-megawatt project for Mars Chocolate in Hackettstown, New Jersey.

We expect to complete two additional solar projects in Ohio and Florida totaling 27 megawatts this year.

Also, we are investing in compressed air energy storage, or CAES.

CAES has the potential to support renewable resources or enhance traditional power plant operations. In 2009, the U.S. Department of Energy awarded grants to two projects that intend to use CAES.

Summing up, we are well positioned to grow as an integrated energy business characterized by a strong balance sheet, a passion for operational excellence, and as a leader in pursuit of growth investments with attractive risk-adjusted returns.

Our financial strength and cash flows support our ability to pursue an organic growth strategy without needing to issue additional equity.

While energy markets are uncertain, our position remains one of considerable strength.

We have a great combination of assets, including a utility recognized year after year for reliability, and a wholesale energy supply business having one of the most diverse, balanced and well-situated portfolios among major U.S. power producers.

We have made environmental improvements that place us well ahead of many competitors.

And, let me emphasize, we have a precious reputation for integrity that we are determined to uphold in everything we do.

Of all the reasons for optimism, the one that rises to the top in my book is the continued dedication of our employees to operational excellence.
We recently witnessed their remarkable efforts in responding to the devastating rain and wind storm that struck New Jersey last month.

It was the worst storm in PSE&G history, as measured by the number of customers without power. The damage was astounding.

Our men and women worked around the clock to safely restore power to our customers.

It was extremely hard, painstaking work. In many locations, it involved nothing less than rebuilding the electric distribution system, pole by pole, line by line.

We are grateful to everyone who rallied to the restoration effort – our people; the crews and contractors from other utilities that assisted us; and municipal employees and public officials at all levels across the state.

And we cannot thank our customers enough for their patience, understanding and trust throughout a very difficult time.

In the aftermath of the storm, PSE&G restored power to more than 635,000 customers – the overwhelming majority within days and virtually all within a week.

Several thousand customers who lost gas service due to flooding were restored as the waters receded and it became safe for our employees to enter their homes.

It is incredibly humbling, but heart-warming, to have received many messages of appreciation from customers thanking our employees.

Let me share with you one of these notes, which came from Mayor John van Keuren of Glen Rock, one of the worst hit towns.

Mayor van Keuren wrote, “Your crews are tireless and dedicated. Recovery has been steady and pretty amazing. Thank you to everyone who brought Glen Rock from pretty bleak to standing tall again.”

We are blessed with great assets, but above all with great people.

In closing, thank you, our shareholders, for your loyalty and support. We will continue working hard each day to justify your trust and confidence.

Thank you.