

PUBLIC SERVICE ENTERPRISE GROUP INC

Form 424B3

August 02, 2005

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion  
Preliminary Prospectus Supplement dated July 29, 2005

PROSPECTUS SUPPLEMENT  
(To Prospectus dated July 3, 2002)

§  
PSEG Funding Trust I  
% Preferred Trust Securities  
\$50 Liquidation Amount per Preferred Trust Security  
Fully and Unconditionally Guaranteed, as Described Herein, by  
  
Public Service Enterprise Group Incorporated

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In September 2002, PSEG Funding Trust I (the "trust"), a Delaware statutory trust, issued \$460,000,000 aggregate liquidation amount of preferred trust securities ("preferred trust securities") with an initial distribution rate of 6.25% per annum. The preferred trust securities were issued as a component of the Participating Units of Public Service Enterprise Group Incorporated. Each Participating Unit initially consisted of a unit referred to as a Corporate Unit that included (i) a purchase contract obligating the holder to purchase, for \$50, shares of our common stock no later than November 16, 2005, and (ii) a preferred trust security with a liquidation amount of \$50. This prospectus supplement relates to the remarketing of \$ aggregate liquidation amount of those preferred trust securities on behalf of holders of Corporate Units and holders of preferred trust securities held separately from Corporate Units, if any, who elect to participate in the remarketing.

The preferred trust securities represent undivided beneficial ownership interests in the assets of the trust, which consist solely of senior deferrable notes due 2007 that were issued by us to the trust. Following the successful remarketing of the preferred trust securities, the trust will make distributions on the preferred trust securities on May 16 and November 16 of each year, commencing November 16, 2005, subject to our right to defer payments on the senior deferrable notes as described in this prospectus supplement. These distributions will accumulate at a rate of % per year from August 8, 2005. We irrevocably guarantee, on a senior unsecured basis, payments on the preferred trust securities out of moneys held by the trust to the extent of available trust funds.

The preferred trust securities are redeemable upon the payment in full of the senior deferrable notes, which will mature on November 16, 2007. In addition, the preferred trust securities are redeemable, at our option, in whole but not in part, upon the occurrence and continuation of a "Tax Event" under the circumstances and at the price described in this prospectus supplement. See "Description of the Preferred Trust Securities--Tax Event Redemption" and "Description of the Senior Deferrable Notes--Tax Event Redemption" in this prospectus supplement.

We will remarket the preferred trust securities in denominations of \$50 and integral multiples of \$50 in excess thereof.

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Prior to this offering, there has been no public market for the preferred trust securities. The preferred trust securities will not be listed on any exchange.

Investing in the preferred trust securities involves risks. See "Risk Factors" beginning on page S-9 of this prospectus supplement.

	Per Preferred Trust Security	Total
Price to the Public (1).....	%	\$
Remarketing Fee to the Remarketing Agents (2).....	%	\$
Net Proceeds to Participating Holders.....	%	\$

(1) Plus accumulated distributions from and including August 8, 2005, if settlement occurs after that date.

(2) Payable from the proceeds of the remarketing. This amount represents % of the proceeds of the remarketing.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The preferred trust securities will be ready for delivery in book-entry only form through the facilities of The Depository Trust Company on or about August 8, 2005.

### ----- Remarketing Agents

Banc of America Securities LLC	-----	Merrill Lynch & Co.
Credit Suisse First Boston	HSEC	Wachovia Securities
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The date of this prospectus supplement is \_\_\_\_\_, 2005.

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Experts..... S-46

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We, PSEG Funding Trust I and the Remarketing Agents have not authorized anyone to provide you with additional or different information. If anyone provides you with different or inconsistent information, you should not rely on it. We, PSEG Funding Trust I and the Remarketing Agents are offering to sell these securities only in jurisdictions where offers and sales are permitted. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate only as of the date on the front of the document and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since these dates.

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### ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this remarketing. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this remarketing.

If the description of this remarketing varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference into this prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement to (1) the "trust" are to PSEG Funding Trust I, a Delaware statutory trust and the issuer of the preferred trust securities, (2) "PSEG," "we," "us" and "our" or similar terms are to Public Service Enterprise Group Incorporated and its consolidated subsidiaries, (3) the "preferred trust securities" are to the preferred trust securities issued by the trust, (4) the "senior deferrable notes" are to the senior deferrable notes

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issued to the trust by us in September 2002, (5) the "indenture" are to the indenture under which the senior deferrable notes were issued, and (6) the "guarantee" are to the guarantee of payment by us of distributions on the preferred trust securities to the extent there is cash available in the trust to make distributions therewith.

### INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" information from certain documents that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus supplement and the accompanying prospectus, and information that we file later with the SEC will be deemed to automatically update and supersede this incorporated information. We incorporate by reference the documents in File No. 1-9120 listed below and any future filings made by us with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the termination of the offering hereunder.

- o Our Annual Report on Form 10-K and Form 10-K/A for the year ended December 31, 2004;
- o Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005;
- o Our Definitive Joint Proxy Statement filed on June 8, 2005 and June 13, 2005; and
- o Our Current Reports on Form 8-K filed on January 24, 2005, February 3, 2005, February 4, 2005, April 6, 2005, April 22, 2005, May 4, 2005 (except with respect to Item 2.02), May 20, 2005, May 27, 2005, June 16, 2005, July 12, 2005, July 19, 2005 and July 29, 2005.

You can get a free copy of any of the documents incorporated by reference by making an oral or written request directed to:

Director, Investor Relations  
PSEG Services Corporation  
80 Park Plaza, 6th Floor  
Newark, NJ 07101  
Telephone (973) 430-6565

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### PROSPECTUS SUPPLEMENT SUMMARY

The following summary should be read in conjunction with the information contained elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference. You should carefully read this entire prospectus supplement and the accompanying prospectus, including the section of this prospectus supplement entitled "Risk Factors" and the information we have incorporated by reference, before making a decision to invest in the preferred trust securities.

### Public Service Enterprise Group Incorporated

We are an integrated energy and energy services company engaged in power generation, regulated delivery of power and gas service and wholesale energy

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marketing and trading. We are an exempt public utility holding company under the Public Utility Holding Company Act of 1935 and neither own nor operate any physical properties. Through our subsidiaries, we are one of the leading providers of energy and energy-related services in the nation. We have four direct, wholly-owned subsidiaries:

- o Public Service Electric and Gas Company ("PSE&G"), which is an operating public utility company engaged principally in the transmission and distribution of electric energy and gas service in New Jersey;
- o PSEG Power LLC ("Power"), which is a multi-regional independent electric generation and wholesale energy marketing and trading company;
- o PSEG Energy Holdings LLC ("Energy Holdings"), which participates nationally and internationally in energy-related lines of business through its subsidiaries; and
- o PSEG Services Corporation, which provides administrative and support services to us and our subsidiaries.

We are a New Jersey corporation with our principal offices located at 80 Park Plaza, Newark, New Jersey 07101. Our telephone number is (973) 430-7000.

### Proposed Merger with Exelon Corporation

On December 20, 2004, we entered into a merger agreement (the "Merger Agreement") with Exelon Corporation ("Exelon"). Under the Merger Agreement, our common stock will be converted into Exelon common stock, and Exelon will be the surviving entity in the merger (the "Merger"). If the Merger is completed, Exelon will change its name to Exelon Electric & Gas Corporation. We believe the proposed Merger would create a strong combined company that will deliver important benefits to our shareholders, to our customers and to the communities we serve.

Subject to the terms and conditions of the Merger Agreement, if the Merger is completed, our shareholders will receive 1.225 shares of Exelon common stock for each share of our common stock they hold, and each outstanding option to purchase shares of our common stock will be assumed by Exelon and substituted with an option to purchase shares of Exelon common stock, exercisable on generally the same terms and conditions that applied before the Merger but adjusted for the exchange ratio. The exchange ratio is fixed in the Merger Agreement, and neither we nor Exelon has the right to terminate the Merger Agreement based solely on changes in either party's stock price. If the Merger is completed, Exelon, as the surviving entity in the Merger, will succeed to all of our obligations under the senior deferrable notes, the indenture, the trust agreement governing the trust and the guarantee.

The Discussion of the Merger Agreement Above is Qualified in Its Entirety by the Merger Agreement Itself, Which was Filed as Annex a to Our Definitive Joint Proxy Statement Filed With the SEC On June 8, 2005 and June 13, 2005 (The "Joint Merger Proxy"). for More Information Relating to the Merger, Please Refer to the Documents Incorporated by Reference in This Prospectus Supplement, Including the Joint Merger Proxy. See "Incorporation of Certain Documents by Reference."

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PSEG Funding Trust I

PSEG Funding Trust I is a statutory trust that was created under the Delaware Statutory Trust Act and is governed by an amended and restated trust agreement among Wachovia Bank, National Association, as property trustee, Wachovia Trust Company, National Association, as Delaware trustee, three of our employees, as administrative trustees, and us. The trust agreement, as amended, was qualified under the Trust Indenture Act of 1939, as amended. The assets of the trust consist solely of our senior deferrable notes due 2007. We hold all of the common securities of the trust.

The principal offices of the trust are located at 80 Park Plaza, Newark, New Jersey 07101 and its telephone number is (973) 430-7000.

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The Remarketing

In this portion of the summary, references to "PSEG," "we," "our" and "us" mean Public Service Enterprise Group Incorporated excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries.

Issuer..... PSEG Funding Trust I.

Securities Remarketed..... \$ aggregate liquidation amount of preferred trust securities, \$50 liquidation amount per preferred trust security. The preferred trust securities represent undivided beneficial ownership interests in the assets of the trust. Those assets consist solely of the senior deferrable notes described below.

Distributions..... Following the successful remarketing of the preferred trust securities, distributions on the preferred trust securities will accumulate at a rate of % per year of the liquidation amount of \$50 per preferred trust security from and including August 8, 2005. These distributions will be payable semi-annually in arrears on May 16 and November 16 of each year, commencing November 16, 2005, subject to deferral as described below. The trust will pay distributions on the preferred trust securities on the dates payable to the extent it has funds available for the payment received from us on the senior deferrable notes.

Distribution Deferral..... If no event of default under the senior deferrable notes has occurred and is continuing, we have the right at any time during the term of the senior deferrable notes to defer the payment of interest for a period not extending beyond November 16, 2007, the maturity date of the senior deferrable notes, or any date of earlier redemption. We refer

to any such period of deferral as an "extension period."

If we defer interest payments on the senior deferrable notes, the trust will defer distributions on the preferred trust securities. During any extension period, distributions on the preferred trust securities will continue to accumulate semi-annually, at the rate of % per year of the liquidation amount of \$50 per preferred trust security. In addition, the deferred distributions will themselves accumulate additional distributions, compounded semi-annually, at the rate of % per year.

The Guarantee..... We fully and unconditionally guarantee the payment of all amounts due on the preferred trust securities to the extent the trust has funds available for payment of such amount.

We are also obligated to pay most of the trust's expenses and obligations (other than the trust's obligations to make payments on the preferred trust securities, which are covered only by the guarantee).

The guarantee does not cover payments if the trust does not have sufficient funds to make payments on the preferred trust securities. This means that if we do not make a payment on the senior deferrable notes, the trust will not have sufficient funds to make payments on the preferred trust securities, and the guarantee will not obligate us to make those payments on behalf of the trust. Our obligations under the guarantee are unsecured and rank equal in right of payment to all our other existing and future unsecured senior indebtedness. See "Description of the Guarantee" in this prospectus supplement.

Senior Deferrable Notes..... The trust is the holder of the senior deferrable notes and uses payments received on the senior deferrable notes to make corresponding payments on

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the preferred trust securities. Our obligations under the senior deferrable notes are unsecured and rank equal in right of payment to all our other existing and future unsecured senior indebtedness. See "Description of the Senior Deferrable Notes" in this prospectus supplement.

Redemption..... The preferred trust securities are redeemable upon the payment in full of the senior deferrable notes, which mature on November 16, 2007. Upon

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payment of the senior deferrable notes on that date, the trust is required to redeem the preferred trust securities at their aggregate liquidation amount plus any accumulated and unpaid distributions.

Prior to November 16, 2007, if the tax laws change or are interpreted in a way that adversely affects the tax treatment of the trust, we may elect to redeem the senior deferrable notes held by the trust at the redemption price described under "Description of the Senior Deferrable Notes--Tax Event Redemption." The proceeds from any such redemption will be used by the trust to redeem the preferred trust securities at a redemption price per preferred trust security equal to the redemption price per each \$50 principal amount of senior deferrable notes. See "Description of the Preferred Trust Securities--Tax Event Redemption."

### Ranking of Preferred

Trust Securities..... The preferred trust securities generally rank on parity, and payments thereon are made pro rata, with the common securities of the trust. However, upon the occurrence and during the continuance of an event of default under the indenture relating to the senior deferrable notes, the rights of the holders of the common trust securities to receive distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the preferred trust securities.

Use of Proceeds..... We will not receive any proceeds from the remarketing of the preferred trust securities. For more information, see "Use of Proceeds" in this prospectus supplement.

Listing..... The preferred trust securities will not be listed on any national securities exchange.

Risk Factors..... Your investment in the preferred trust securities will involve risks. You should carefully consider the discussion of risks set forth in this prospectus supplement under "Risk Factors" before deciding whether an investment in the preferred trust securities is suitable for you.

### Form of the Preferred

Trust Securities..... The preferred trust securities will be represented by one or more global securities deposited with and registered in the name of The Depository Trust Company, New York, New York ("DTC"). This means that you will not receive a certificate for your preferred trust securities and the preferred trust securities will not be registered in your name. Rather, your broker or other direct or indirect participant of DTC will maintain your position in the preferred trust securities. See "Description of the Preferred Trust Securities--Book-Entry Clearance and Settlement" in this prospectus supplement.



United States Federal

Income Taxation..... We have treated and will continue to treat the senior deferrable notes for United States federal income tax purposes as indebtedness that is subject to the Treasury regulations governing contingent payment debt instruments.

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These regulations are complex and, in some respects, uncertain in application. In addition, we have treated and will continue to treat the trust as a grantor trust and the preferred trust securities as undivided beneficial interests in the senior deferrable notes held by the trust for United States federal income tax purposes. Generally, assuming that you report your income in a manner consistent with the method described in this prospectus supplement, the amount of income that you will recognize in respect of the preferred trust securities should correspond to the economic accrual of income on the preferred trust securities to you and the amount of income you would have recognized if the senior deferrable notes were not subject to the contingent payment debt regulations. However, no assurance can be given that the Internal Revenue Service will agree with our position. For a detailed discussion, please see the section of this prospectus supplement entitled "Certain United States Federal Income Tax Considerations."

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#### RISK FACTORS

Your investment in the preferred trust securities involves a number of risks. You should carefully consider the following discussion as well as the other information contained and incorporated by reference into this prospectus supplement and the accompanying prospectus, including the section beginning on page 21 of our Joint Merger Proxy entitled "Risk Factors" relating to risks associated with the Merger and the combined company resulting from the Merger, before making a decision to invest in the preferred trust securities.

#### Risks Relating to PSEG

Generation operating performance may fall below projected levels.

Operating our generating stations below expected capacity levels may result in lost revenues, increased expenses, higher maintenance costs and penalties. Individual facilities may be unable to meet operating and financial obligations resulting in reduced cash flow.

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The risks associated with operating power generation facilities, each of which could result in performance below expected capacity levels, include:

- o breakdown or failure of equipment or processes;
- o disruptions in the transmission of electricity;
- o labor disputes;
- o fuel supply interruptions;
- o limitations which may be imposed by environmental or other regulatory requirements;
- o permit limitations; and
- o operator error or catastrophic events such as fires, earthquakes, explosions, floods, acts of terrorism or other similar occurrences.

Credit, commodity and financial market risks could negatively impact our business.

The revenues generated by the operation of our generating stations are subject to market risks that are beyond our control. Our generation output will either be used to satisfy our wholesale contracts or be sold into the competitive power markets or under other bilateral contracts. Participants in the competitive power markets are not guaranteed any specified rate of return on their capital investments through recovery of mandated rates payable by purchasers of electricity.

Our generation revenues and results of operations are dependent upon prevailing market prices for energy, capacity, ancillary services and fuel supply in the markets we serve.

The following factors are among those that influence the market prices for energy, capacity and ancillary services:

- o the extent of additional supplies of capacity, energy and ancillary services from current competitors or new market entrants, including the development of new generation facilities that may be able to produce electricity less expensively;
- o changes in the rules set by regulatory authorities with respect to the manner in which electricity sales will be priced;
- o transmission congestion and access in Pennsylvania, New Jersey, Maryland Interconnection ("PJM") and/or other competitive markets;
- o the operation of nuclear generation plants in PJM and other competitive markets beyond their presently expected dates of decommissioning;
- o prevailing market prices for enriched uranium, fuel oil, coal and natural gas and associated transportation costs;
- o fluctuating weather conditions;

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- o reduced growth rate in electricity usage as a result of factors such

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as national and regional economic conditions and the implementation of conservation programs; and

- o changes in regulations applicable to PJM and other Independent System Operators.

As a result of the Basic Generation Service ("BGS") auction, Power entered into contracts with the direct suppliers of the New Jersey electric utilities, including PSE&G. These bilateral contracts are subject to credit risk. This credit risk relates to the ability of counterparties to meet their payment obligations for the power delivered under each BGS contract. Any failure to collect these payments under these BGS contracts with counterparties could have a material impact on our results of operations, cash flows and financial position.

Energy obligations, available supply and trading risks could negatively impact our business.

Our energy trading and marketing activities frequently involve the establishment of energy trading positions in the wholesale energy markets on long-term and short-term bases. To the extent that we have forward purchase contracts to provide or purchase energy in excess of demand, a downturn in the markets is likely to result in a loss from a decline in the value of our long positions as we attempt to sell energy in a falling market. Conversely, to the extent that we enter into forward sales contracts to deliver energy we do not own, or take short positions in the energy markets, an upturn in the energy markets is likely to expose us to losses as we attempt to cover our short positions by acquiring energy in a rising market.

If the strategy we utilize to hedge our exposures to these various risks is not effective, we could incur significant losses. Our substantial energy trading positions can also be adversely affected by the level of volatility in the energy markets that, in turn, depends on various factors, including weather in various geographical areas and short-term supply and demand imbalances, which cannot be predicted with any certainty.

Counterparty credit risks or a deterioration of Power's credit quality may have an adverse impact on our business.

We are exposed to the risk that counterparties will not perform their obligations. Although we have devoted significant resources to develop our risk management policies and procedures as well as counterparty credit requirements, and will continue to do so in the future, we can give no assurance that losses from our energy trading activities will not have a material adverse effect on our business, prospects, results of operations, financial condition or net cash flows.

In connection with its energy trading activities, Power must meet credit quality standards required by counterparties. Standard industry contracts generally require trading counterparties to maintain investment grade ratings. These same contracts provide reciprocal benefits to Power. If Power loses its investment grade credit rating, its subsidiary, PSEG Energy Resources & Trade LLC ("ER&T"), would have to provide collateral in the form of letters of credit or cash, which would significantly impact the energy trading business. This would increase our costs of doing business and limit our ability to successfully conduct our energy trading operations.

The electric energy industry is undergoing substantial change.

The electric energy industry in the State of New Jersey, across the country and around the world is undergoing major transformations. As a result of deregulation and the unbundling of energy supplies and services, the gas and

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electric retail markets are now open to competition from other suppliers. Increased competition from these suppliers could reduce the quantity of our wholesale sales and have a negative impact on earnings and cash flows. We are affected by many issues that are common to the electric industry such as:

- o ability to obtain adequate and timely rate relief, cost recovery, including unsecuritized stranded costs, and other necessary regulatory approvals;
- o deregulation, the unbundling of energy supplies and services and the establishment of a competitive energy marketplace for products and services;
- o the possibility of reregulation in some deregulated markets;

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- o energy sales retention and growth;
- o revenue and price stability and growth;
- o nuclear operations and decommissioning;
- o increased capital investments attributable to environmental regulations;
- o managing energy trading operations;
- o ability to complete development or acquisition of current and future investments;
- o managing electric generation operations in locations outside of our traditional utility service territory;
- o exposure to market price fluctuations and volatility;
- o regulatory restrictions on affiliate transactions; and
- o debt and equity market concerns.

Because a portion of our business is conducted outside the United States, adverse international developments could negatively impact our business.

A component of our business strategy has been the development, acquisition and operation of projects outside the United States. The economic and political conditions in certain countries where Energy Holdings' subsidiary, PSEG Global Inc. ("Global"), has interests, or in which Global is or could be exploring development or acquisition opportunities, present risks that may be different than those found in the United States including:

- o delays in permitting and licensing;
- o construction delays and interruption of business;
- o risks of war;
- o expropriation;
- o nationalization;

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- o renegotiation or nullification of existing contracts; and
- o changes in law or tax policy.

Changes in the legal environment in foreign countries in which Global may develop or acquire projects could make it more difficult to obtain non-recourse project refinancing on suitable terms and could impair Global's ability to enforce its rights under agreements relating to such projects.

Operations in foreign countries also present risks associated with currency exchange and convertibility, inflation and repatriation of earnings. In some countries in which Global may develop or acquire projects in the future, economic and monetary conditions and other factors could affect Global's ability to convert its cash distributions to United States Dollars or other freely convertible currencies, or to move funds offshore from these countries. Furthermore, the central bank of any of these countries may have the authority to suspend, restrict or otherwise impose conditions on foreign exchange transactions or to approve distributions to foreign investors. Although Global generally seeks to structure power purchase contracts and other project revenue agreements to provide for payments to be made in, or indexed to, United States Dollars or a currency freely convertible into United States Dollars, its ability to do so in all cases may be limited.

If our operating performance falls below projected levels, we may not be able to service our debt.

The risks associated with operating power generation facilities include, among others, those described above under "--Generation operating performance may fall below projected levels." Operation below expected capacity levels may result in lost revenues, increased expenses, higher maintenance costs and penalties, in which case there may not be sufficient cash available to service project debt. In addition, many of Global's generation projects rely on a single fuel supplier and a single customer for the purchase of the facility's output under a long term contract.

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While Global generally has liquidated damage provisions in its contracts, the default by a supplier under a fuel contract or a customer under a power purchase contract could adversely affect the facility's cash generation and ability to service project debt.

Countries in which Global owns and operates electric and gas distribution facilities may impose financial penalties if reliability performance standards are not met. In addition, inefficient operation of the facilities may cause lost revenue and higher maintenance expenses, in which case there may not be sufficient cash available to service project debt.

Because we are a holding company, our ability to service our debt could be limited.

We are a holding company with no material assets other than the stock or membership interests of our subsidiaries and project affiliates. Accordingly, all of our operations are conducted by our subsidiaries and project affiliates which are separate and distinct legal entities that have no obligation, contingent or otherwise, to pay any amounts when due on our debt or to make any funds available to us to pay such amounts. As a result, our debt will effectively be subordinated to all existing and future debt, trade creditors, and other liabilities of our subsidiaries and project affiliates and our rights and hence the rights of our creditors to participate in any distribution of

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assets of any subsidiary or project affiliate upon its liquidation or reorganization or otherwise would be subject to the prior claims of that subsidiary's or project affiliate's creditors, except to the extent that our claims as a creditor of such subsidiary or project affiliate may be recognized.

We depend on our subsidiaries' and project affiliates' cash flow and our access to capital in order to service our indebtedness. The project-related debt agreements of subsidiaries and project affiliates generally restrict their ability to pay dividends, make cash distributions or otherwise transfer funds to us. These restrictions may include achieving and maintaining financial performance or debt coverage ratios, absence of events of default, or priority in payment of other current or prospective obligations.

Our subsidiaries have financed some investments using non-recourse project level financing. Each non-recourse project financing is structured to be repaid out of cash flows provided by the investment. In the event of a default under a financing agreement which is not cured, the lenders would generally have rights to the related assets. In the event of foreclosure after a default, our subsidiary may lose its equity in the asset or may not be entitled to any cash that the asset may generate. Although a default under a project financing agreement will not cause a default with respect to our debt and that of our subsidiaries, it may materially affect our ability to service our outstanding indebtedness.

We can give no assurances that our current and future capital structure, operating performance or financial condition will permit us to access the capital markets or to obtain other financing at the times, in the amounts and on the terms necessary or advisable for us to successfully carry out our business strategy or to service our indebtedness.

Our ability to control cash flow from our minority investments is limited.

Our ability to control investments in which we own a minority interest is limited. Assuming a minority ownership role presents additional risks, such as not having a controlling interest over operations and material financial and operating matters or the ability to operate the assets more efficiently. As such, neither we nor Global are able to unilaterally cause dividends or distributions to be made to us or Global from these operations.

Minority investments may involve risks not otherwise present for investments made solely by us and our subsidiaries, including the possibility that a partner, majority investor or co-venturer might become bankrupt, may have different interests or goals, and may take action contrary to our instructions, requests, policies or business objectives. Also, if no party has full control, there could be an impasse on decisions. In addition, certain investments of Energy Holdings' subsidiary, PSEG Resources LLC ("Resources"), are managed by unaffiliated entities which limits Resources' ability to control the activities or performance of such investments and managers.

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Failure to obtain adequate and timely rate relief could negatively impact our business.

As a public utility, PSE&G's rates are regulated by the New Jersey Board of Public Utilities ("BPU") and the Federal Energy Regulatory Commission ("FERC"). These rates are designed to allow PSE&G to recover its operating expenses and earn a fair return on its rate base, which primarily consists of its property, plant and equipment less various adjustments. These rates include its electric and gas tariff rates that are subject to regulation by the BPU as

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well as its transmission rates that are subject to regulation by the FERC. PSE&G's base rates are set by the BPU for electric distribution and gas distribution and are effective until the time a new rate case is brought to the BPU. These base rate cases generally take place every few years. Limited categories of costs are recovered through adjustment charges that are periodically reset to reflect actual costs. If these costs exceed the amount included in PSE&G's adjustment charges, there will be a negative impact on earnings or cash flows.

If PSE&G's operating expenses, other than costs recovered through adjustment charges, exceed the amount included in its base rates and in its FERC jurisdictional rates, there will be a negative impact on our earnings and operating cash flows.

Global's electric and gas distribution facilities are rate-regulated enterprises. Governmental authorities establish rates charged to customers. While these rates are designed to cover all operating costs and provide a return, considerable fiscal and cash uncertainties in certain countries due to economic, political and social crisis could have an adverse impact.

We can give no assurances that rates will, in the future, be sufficient to cover Global's costs and provide a return on its investment. In addition, future rates may not be adequate to provide cash flow to pay principal and interest on the debt of Global's subsidiaries and affiliates or to enable its subsidiaries and affiliates to comply with the terms of debt agreements.

We may not have access to sufficient capital in the amounts and at the times needed.

Capital for our projects and investments has been provided by internally-generated cash flow and borrowings by us and our subsidiaries. We require continued access to debt capital from outside sources in order to efficiently fund our capital needs and assure the success of our future projects and acquisitions. Our ability to arrange financing on a non-recourse basis and the costs of capital depend on numerous factors including, among other things, general economic and market conditions, the availability of credit from banks and other financial institutions, investor confidence, the success of current projects and the quality of new projects.

We can give no assurances that our current and future capital structure or financial condition will permit access to bank and debt capital markets. The availability of capital is not assured since it is dependent upon our performance and that of our other subsidiaries. As a result, there is no assurance that we or our subsidiaries will be successful in obtaining financing for our projects and acquisitions or funding the equity commitments required for such projects and acquisitions in the future.

We and our subsidiaries are subject to substantial competition from well capitalized participants in the worldwide energy markets.

We and our subsidiaries are subject to substantial competition in the United States and in international markets from:

- o merchant generators;
- o domestic and multi-national utility generators;
- o energy traders, including affiliates of financial institutions;
- o fuel supply companies;
- o engineering companies;

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- o equipment manufacturers; and
- o affiliates of other industrial companies.

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Restructuring of worldwide energy markets, including the privatization of government-owned utilities and the sale of utility-owned assets, is creating opportunities for, and substantial competition from, well-capitalized entities which may adversely affect our ability to make investments on favorable terms and achieve our growth objectives. Increased competition could contribute to a reduction in prices offered for power and could result in lower returns which may affect our ability to service our outstanding indebtedness, including short-term debt.

Deregulation may continue to accelerate the current trend toward consolidation among domestic utilities and could also result in the further splitting of vertically-integrated utilities into separate generation, transmission and distribution businesses. As a result, additional competitors could become active in the independent power industry. Resources faces competition from numerous well-capitalized investment and finance company affiliates of banks, utilities and industrial companies.

Power transmission facilities may impact our ability to deliver our output to customers.

Our ability to sell and deliver our electric energy products and grow our business may be adversely impacted and our ability to generate revenues may be limited if:

- o transmission is disrupted;
- o transmission capacity is inadequate; or
- o a region's power transmission infrastructure is inadequate.

Regulatory issues significantly impact our operations.

Federal, state and local authorities impose substantial regulation and permitting requirements on the electric power generation business. We are required to comply with numerous laws and regulations and to obtain numerous governmental permits in order to operate our generation stations.

We believe that we have obtained all material energy-related federal, state and local approvals including those required by the Nuclear Regulatory Commission ("NRC"), currently required to operate our generation stations. Although not currently required, additional regulatory approvals may be required in the future due to a change in laws and regulations or for other reasons. We cannot assure that we will be able to obtain any required regulatory approval in the future, or that we will be able to obtain any necessary extension in receiving any required regulatory approvals. Any failure to obtain or comply with any required regulatory approvals could materially adversely affect our ability to operate our generation stations or sell electricity to third parties.

We are subject to pervasive regulation by the NRC with respect to the operation of our nuclear generation stations. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. The NRC also requires continuous demonstrations that plant operations meet applicable requirements. The NRC has



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the ultimate authority to determine whether any nuclear generation unit may operate.

We can give no assurance that existing regulations will not be revised or reinterpreted, that new laws and regulations will not be adopted or become applicable to us or any of our generation stations or that future changes in laws and regulations will not have a detrimental effect on our business.

Environmental regulation may limit our operations.

We are required to comply with numerous statutes, regulations and ordinances relating to the safety and health of employees and the public, the protection of the environment and land use. These statutes, regulations and ordinances are constantly changing. While we believe that we have obtained all material environmental-related approvals currently required to own and operate our facilities or that these approvals have been applied for and will be issued in a timely manner, we may incur significant additional costs because of compliance with these requirements. Failure to comply with environmental statutes, regulations and ordinances could have a material effect on us, including potential civil or criminal liability and the imposition of clean-up liens or fines and expenditures of funds to bring our facilities into compliance.

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We can give no assurance that we will be able to:

- o obtain all required environmental approvals that we do not yet have or that may be required in the future;
- o obtain any necessary modifications to existing environmental approvals;
- o maintain compliance with all applicable environmental laws, regulations and approvals; or
- o recover any resulting costs through future sales.

Delay in obtaining or failure to obtain and maintain in full force and effect any environmental approvals, or delay or failure to satisfy any applicable environmental regulatory requirements, could prevent construction of new facilities, operation of our existing facilities or sale of energy from these facilities or could result in significant additional cost to us.

We are subject to more stringent environmental regulation than many of our competitors.

Our facilities are subject to both federal and state pollution control requirements. Most of our generating facilities are located in the State of New Jersey. In particular, New Jersey's environmental programs are generally considered to be more stringent in comparison to similar programs in other states. As such, there may be instances where the facilities located in New Jersey are subject to more stringent and, therefore, more costly pollution control requirements than competitive facilities in other states.

Insurance coverage may not be sufficient.

We have insurance for our facilities, including:

- o all-risk property damage insurance;

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- o commercial general public liability insurance;
- o boiler and machinery coverage;
- o nuclear liability; and
- o for our nuclear generating units, replacement power and business interruption insurance in amounts and with deductibles that we consider appropriate.

We can give no assurance that this insurance coverage will be available in the future on commercially reasonable terms or that the insurance proceeds received for any loss of or any damage to any of our facilities will be sufficient to permit us to continue to make payments on our debt. Additionally, some of our properties may not be insured in the event of an act of terrorism.

Acquisition, construction and development activities may not be successful.

We may seek to acquire, develop and construct new energy projects, the completion of any of which is subject to substantial risk. This activity requires a significant lead time and requires us to expend significant sums for preliminary engineering, permitting, fuel supply, resource exploration, legal and other development expenses in preparation for competitive bids or before it can be established whether a project is economically feasible.

The construction, expansion or refurbishment of a generation, transmission or distribution facility may involve:

- o equipment and material supply interruptions;
- o labor disputes;
- o unforeseen engineering environmental and geological problems; and
- o unanticipated cost overruns.

The proceeds of any insurance, vendor warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or payments of liquidated damages. In addition, some power purchase contracts

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permit the customer to terminate the contract, retain security posted by the developer as liquidated damages or change the payments to be made to the subsidiary or the project affiliate in the event specified milestones, such as commercial operation of the project, are not met by specified dates. If project start-up is delayed and the customer exercises these rights, the project may be unable to fund principal and interest payments under its project financing agreements. We can give no assurance that we will obtain access to the substantial debt and equity capital required to develop and construct new generation projects or to refinance existing projects to supply anticipated future demand.

Changes in technology may make our power generation assets less competitive.

A key element of our business plan is that generating power at central power plants produces electricity at relatively low cost. There are other technologies that produce electricity, most notably fuel cells, microturbines, windmills and photovoltaic (solar) cells. It is possible that advances in

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technology will reduce the cost of alternative methods of producing electricity to a level that is competitive with that of most central station electric production. If this were to happen, our market share could be eroded and the value of our power plants could be significantly impaired. Changes in technology could also alter the channels through which retail electric customers buy electricity, which could affect our financial results.

Recession, acts of war or terrorism could negatively impact our business.

The consequences of a prolonged recession and adverse market conditions may include the continued uncertainty of energy prices and the capital and commodity markets. We cannot predict the impact of any continued economic slowdown or fluctuating energy prices; however, such impact could have a material adverse effect on our financial condition, results of operations and net cash flows.

Like other operators of major industrial facilities, our generation plants, fuel storage facilities and transmission and distribution facilities may be targets of terrorist activities that could result in disruption of our ability to produce or distribute some portion of our energy products. Any such disruption could result in a significant decrease in revenues and/or significant additional costs to repair, which could have a material adverse impact on our financial condition, results of operation and net cash flows.

Many of these contingent liabilities can remain open for extended periods of time after the sales are closed. Depending on the extent to which the buyers may ultimately seek to enforce their rights under these contractual provisions, and the resolution of any disputes we may have concerning them, these liabilities could have a material adverse effect on our financial condition, liquidity, cash flow and results of operations.

Each of Exelon and PSEG has established reserves with respect to the obligations under the agreements described above; however, we cannot assure you that such reserves would be sufficient to cover any payments required under the agreements described above.

### Risks Relating to the Preferred Trust Securities

Other than under the guarantee, you will have limited enforcement rights with respect to the senior deferrable notes.

Except as described below or in the accompanying prospectus, you, as a holder of preferred trust securities, will not be able to exercise directly any rights with respect to the senior deferrable notes.

The guarantee has been qualified as an indenture under the Trust Indenture Act. The guarantee trustee, Wachovia Bank, National Association, acts as indenture trustee under the guarantee for purposes of compliance with the provisions of the Trust Indenture Act. The guarantee trustee holds the guarantee for the benefit of holders of preferred trust securities.

The guarantee will guarantee, generally on an unsecured basis, the payment of the following:

- o any accumulated and unpaid distributions that are required to be paid on the preferred trust securities, to the extent the trust has funds available for this purpose;

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- o the redemption price, including all accumulated and unpaid distributions to the date of redemption, of preferred trust securities that we may have redeemed upon the occurrence of a tax event redemption, to the extent the trust has funds available for this purpose; and
- o upon a voluntary or involuntary dissolution of the trust, other than in connection with the distribution of senior deferrable notes to you, the lesser of (a) the aggregate liquidation amount and all accumulated and unpaid distributions on the preferred trust securities to the date of payment to the extent the trust has funds available for this purpose and (b) the amount of assets of the trust remaining available for distribution to holders of the preferred trust securities in liquidation of the trust.

The holders of a majority in liquidation amount of the preferred trust securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the guarantee trustee or to direct the exercise of any trust or power conferred upon the guarantee trustee under the guarantee. Notwithstanding the above, but only under limited circumstances, holders of the preferred trust securities may institute a legal proceeding directly against us to enforce their rights under the guarantee without first instituting a legal proceeding against the trust, the guarantee trustee or any other person or entity.

If we were to default on our obligation to pay amounts payable on the senior deferrable notes or otherwise, the trust would lack funds for the payment of distributions or amounts payable on redemption of the preferred trust securities or otherwise, and, in that event, a holder of preferred trust securities would not be able to rely upon the guarantee for payment of these amounts.

Instead, the holder would rely on the enforcement

- o by the property trustee of its rights as registered holder of the senior deferrable notes against us pursuant to the terms of the indenture and the senior deferrable notes or
- o by that holder of the property trustee's or that holder's own limited rights against us to enforce payments on the senior deferrable notes.

The amended and restated declaration of trust provides that each holder of preferred trust securities, by its acceptance, agrees to the provisions of the guarantee and the indenture.

Indebtedness and borrowings by our subsidiaries effectively will be senior to the preferred trust securities and we are dependent on payments from our subsidiaries to enable us to pay principal and interest on the senior deferrable notes that are the sole assets of the trust.

We are a holding company. Our senior deferrable notes that constitute the sole assets of the trust, as well as our guarantee, are senior unsecured obligations of ours but are effectively subordinated to all obligations and preferred equity of our subsidiaries, whether secured or unsecured. As a result, the preferred trust securities are structurally subordinated to all existing and future obligations of our subsidiaries, including claims with respect to trade payables. This means that holders of the preferred trust securities have a junior position to the claims of creditors and preferred stockholders of our direct and indirect subsidiaries on the assets and earnings of such subsidiaries. In addition, the indenture does not limit the amount of indebtedness that we can incur. See "Description of the Debt Securities" in the

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accompanying prospectus. At March 31, 2005, we had consolidated total indebtedness of \$13.6 billion, of which \$11.7 billion was at the subsidiary level.

We conduct our operations through our subsidiaries, which generate substantially all of our operating income and cash flow. As a result, distributions or advances from our subsidiaries are a major source of funds necessary to meet our debt service and other obligations, including any funds required to make payments of principal and interest on the senior deferrable notes that represent the sole assets of the trust. Contractual provisions, laws or regulations, as well as any subsidiary's financial condition and operating performance and requirements, may limit our ability to obtain cash required to pay our debt service and other obligations, including payment of principal and interest on our senior deferrable notes and the related payments on the preferred trust securities.

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Holders of preferred trust securities will have limited voting rights.

You will not be entitled to vote to appoint, remove, replace or change the number of the trustees of the trust, and generally will have no voting rights, except in the limited circumstances described in this prospectus supplement and the accompanying prospectus.

The secondary market for the preferred trust securities or, if we distribute them to you, the senior deferrable notes, may be illiquid.

It is not possible to predict how the preferred trust securities will trade in the secondary market or whether the market will be liquid or illiquid. There is currently no secondary market for the preferred trust securities and we do not currently plan to list the preferred trust securities on any national securities exchange. There can be no assurance as to the liquidity of any market that may develop for the preferred trust securities, your ability to sell these securities or whether a trading market, if it develops, will continue.

Likewise, if we distribute the senior deferrable notes to the holders of the preferred trust securities upon dissolution of the trust, we will not list the senior deferrable notes on any national securities exchange and we cannot assure you that a public market will develop for the senior deferrable notes. The senior deferrable notes would be subject to liquidity and volatility issues similar to those for the preferred trust securities outlined in the previous paragraph.

We may redeem the preferred trust securities upon the occurrence of a tax event.

We have the option to redeem the senior deferrable notes, and, therefore the preferred trust securities, on not less than 30 days' or more than 60 days' prior written notice, in whole but not in part, at any time before November 16, 2007, if a tax event occurs and continues under the circumstances described under "Description of the Senior Deferrable Notes--Tax Event Redemption," in this prospectus supplement (a "tax event redemption"). If we exercise this option, we will redeem the senior deferrable notes at the redemption price plus accrued and unpaid interest (including deferred interest), if any. If we redeem all of the senior deferrable notes, the trust must redeem all of the preferred trust securities and pay the redemption price in cash to the holders of the preferred trust securities. A tax event redemption will be a taxable event to the holders of the preferred trust securities. In addition, if the trust preferred securities are redeemed, you may not be able to reinvest the money you receive upon redemption at a rate that is equal to or higher than the rate at

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which distributions are paid on the preferred trust securities.

Distributions on the trust preferred securities will be deferred if we defer interest payments on the senior deferrable notes.

Distributions to you on the preferred trust securities may be deferred if we exercise our right to defer interest payments on our senior deferrable notes. As the senior deferrable notes are the only assets of the trust, if we defer those interest payments, the trust will not have enough funds to make distributions on the preferred trust securities. However, distributions will still accumulate semi-annually at a rate of % per year and the deferred distributions will themselves accumulate additional distributions, compounded semi-annually, at the rate of % per year, to the extent permitted by law. In this case, even though you would not be receiving distributions on your preferred trust securities, you would be required to include the stated distribution, compounded semi-annually, in gross income, as original issue discount, on a daily economic accrual basis, regardless of your method of accounting. As a result, you would recognize income for United States federal income tax purposes in advance of the receipt of cash attributable to such income and would not receive cash distributions on your preferred trust securities until we make an interest payment on the senior deferrable notes. See "Certain United States Federal Income Tax Considerations" in this prospectus supplement.

If we exercise our right to defer payments of interest on the senior deferrable notes and the distributions on the preferred trust securities are similarly deferred, the market price of the preferred trust securities is likely to decrease. If you sell your trust preferred securities during a deferral period, you may not receive the same return on your investment as a holder who continues to hold the preferred trust securities. In addition, the mere existence

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of the right to defer interest payments and distributions may cause the market price of the preferred trust securities to be more volatile than the market price of other securities that are not subject to such deferrals. There is no limitation in the number of times that we may elect to defer interest payments.

In the event a large number of holders of preferred trust securities who elected not to participate in the remarketing decide to sell such preferred trust securities, the price of your preferred trust securities may be adversely affected.

Pursuant to the terms of the Corporate Units and the preferred trust securities, holders of preferred trust securities held separately from Corporate Units may choose not to participate in the remarketing by taking certain actions. In the event that a significant number of such holders decide to sell their preferred trust securities after the remarketing, the price of your preferred trust securities may be adversely affected and may decrease below the price paid by you.

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### FORWARD LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus include "forward-looking statements" within the meaning of the Private Securities

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Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this prospectus supplement, the accompanying prospectus or in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus that address activities, events or developments that we expect or anticipate will or may occur in the future, including such matters as our projections, future capital expenditures, business strategy, competitive strengths, goals, expansion, market and industry developments and the growth of our businesses and operations, are forward-looking statements. These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated. These statements are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this prospectus supplement, the accompanying prospectus or in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, the words "will," "anticipate," "intend," "estimate," "believe," "expect," "plan," "hypothetical," "potential," "forecast," "project," and variations of such words and similar expressions are intended to identify forward-looking statements. The following review of factors should not be construed as exhaustive or as any admission regarding the adequacy of our disclosures prior to the effective date of the Private Securities Litigation Reform Act of 1995. These risks and uncertainties include:

- o market, credit rating and other risks that could result from any inability to close the pending Merger with Exelon;
- o credit, commodity, interest rate, counterparty and other financial market risks;
- o liquidity and the ability to access capital and credit markets and maintain adequate credit ratings;
- o adverse or unanticipated weather conditions that significantly impact costs and/or operations, including generation;
- o changes in the electric industry, including changes to power pools;
- o changes in the number of market participants and the risk profiles of such participants;
- o changes in technology that make generation, transmission, and/or distribution assets less competitive;
- o availability of power transmission facilities that impact the ability to deliver output to customers;
- o growth in costs and expenses;
- o operating performance or cash flow from investments falling below projected levels;
- o environmental regulations that significantly impact operations;
- o changes in rates of return on overall debt and equity markets that could adversely impact the value of pension assets and liabilities and the Nuclear Decommissioning Trust Funds;
- o ability to maintain satisfactory regulatory results;

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- o changes in political conditions, recession, acts of war or terrorism;
- o continued availability of insurance coverage at commercially reasonable rates;
- o involvement in lawsuits, including liability claims and commercial disputes;
- o inability to attract and retain management and other key employees, particularly in consideration of the pending Merger with Exelon;
- o acquisitions, divestitures, mergers, restructurings or strategic initiatives that change PSEG's, PSE&G's, Power's and Energy Holdings' structure;
- o business combinations among competitors and major customers;
- o general economic conditions, including inflation or deflation;

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- o regulatory issues that significantly impact operations;
- o changes to accounting standards or accounting principles generally accepted in the U.S., which may require adjustments to financial statements;
- o changes in tax laws and regulations;
- o ability to recover investments or service debt as a result of any of the risks or uncertainties mentioned herein;
- o ability to obtain adequate and timely rate relief;
- o energy transmission constraints or lack thereof;
- o adverse changes in the market for energy, capacity, natural gas, emissions credits, congestion credits and other commodity prices, especially during extreme price movements for natural gas and power;
- o surplus of energy capacity and excess supply;
- o substantial competition in the worldwide energy markets;
- o inability to effectively manage portfolios of electric generation assets, gas supply contracts and electric and gas supply obligations;
- o margin posting requirements, especially during significant price movements for natural gas and power;
- o availability of fuel and timely transportation at reasonable prices;
- o effects on competitive position of actions involving competitors or major customers;
- o changes in product or sourcing mix;
- o delays, cost escalations or unsuccessful acquisitions, construction



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and development;

- o changes in regulation and safety and security measures at nuclear facilities;
- o changes in political regimes in foreign countries;
- o international developments negatively impacting business;
- o changes in foreign currency exchange rates;
- o deterioration in the credit of lessees and their ability to adequately service lease rentals; and
- o ability to realize tax benefits.

In addition, the risks and uncertainties related to the proposed Merger as set forth beginning on page 35 of our Joint Merger Proxy under the caption "Forward-Looking Statements" also could cause actual results to differ materially from those anticipated.

All of the forward-looking statements made in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus are qualified by these cautionary statements and we cannot assure you that the results or developments anticipated by us will be realized or, even if realized, will have the expected consequences to or effects on us or our business prospects, financial condition or results of operations. You should not place undue reliance on these forward-looking statements in making your investment decision. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to these forward-looking statements to reflect events or circumstances that occur or arise or are anticipated to occur or arise after the date hereof. In making an investment decision regarding the securities, we are not making, and you should not infer, any representation about the likely existence of any particular future set of facts or circumstances. The forward-looking statements contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

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### RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges for each of the periods indicated is as follows:

	(unaudited) Three Months Ended March 31, 2005	Years Ended December 31			
		2000	2001	2002	2003
Ratios of Earnings to Fixed Charges.....	2.71	2.67	2.14	1.58	2.20

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. For this purpose earnings consist of pre-tax income from

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continuing operations excluding extraordinary items, plus the amount of fixed charges adjusted to exclude the amount of any interest capitalized during the period; and the actual amount of any preferred stock dividend requirements of majority-owned subsidiaries which were included in such fixed charges amount but not deducted in the determination of pre-tax income. Fixed charges consist of: interest, whether expensed or capitalized; amortization of debt discount, premium and expense; an estimate of interest implicit in rentals; and preferred securities dividend requirements of subsidiaries and preferred stock dividends, increased to reflect our pre-tax earnings requirement.

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### USE OF PROCEEDS

We are remarketing \$ aggregate liquidation amount of preferred trust securities on behalf of holders of Corporate Units and holders of preferred trust securities held separately from Corporate Units, if any, who elect to participate in the remarketing. We will not receive any cash proceeds from the remarketing of the preferred trust securities. Instead, the proceeds of the remarketing will be used as follows:

- o \$ of the proceeds (which is equal to the treasury portfolio purchase price described under "Remarketing") will be used to purchase the treasury portfolio (described under "Remarketing") that will then be pledged to us, on behalf of holders of Corporate Units, as security against the purchase contract obligations of such holders;
- o \$ of the proceeds (which is equal to the separate preferred securities purchase price described under "Remarketing") will be remitted to The Bank of New York, as the custodial agent, for payment to the holders of preferred trust securities held separately from Corporate Units, if any, who have elected to participate in the remarketing;
- o \$ of the proceeds, which equals the lesser of (i) 25 basis points (0.25%) of the sum of the treasury portfolio purchase price and the separate preferred securities purchase price, if any, and (ii) the amount of the proceeds, if any, in excess of the sum of the treasury portfolio purchase price and the separate preferred securities purchase price, if any, will be deducted and retained by the remarketing agents as a remarketing fee;
- o any proceeds from the remarketing of preferred trust securities that are components of the Corporate Units remaining after deducting the treasury portfolio purchase price and the remarketing fee attributable to such preferred trust securities will be remitted to Wachovia Bank, National Association, as the purchase contract agent, for payment to the holders of the Corporate Units; and
- o any proceeds from the remarketing of preferred trust securities held separately from the Corporate Units remaining after deducting the separate preferred securities purchase price and the remarketing fee attributable to such preferred trust securities will be remitted to The Bank of New York, as the custodial agent, for payment to the holders of such remarketed preferred trust securities.

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### DESCRIPTION OF THE PREFERRED TRUST SECURITIES

The preferred trust securities have been issued according to the terms of the amended and restated trust agreement which has been qualified as an indenture under the Trust Indenture Act. We refer to the amended and restated trust agreement, as amended from time to time, as the "declaration." The property trustee, Wachovia Bank, National Association, acts as trustee for the preferred trust securities under the declaration for purposes of compliance with the provisions of the Trust Indenture Act. The terms of the preferred trust securities include those stated in the declaration and those made part of the declaration by the Trust Indenture Act. We believe that all of the material provisions of the preferred trust securities and the declaration are set forth below. However, because the description below is a summary, it is not necessarily complete, and reference is made to the copy of the declaration, including the definitions, which is filed as an exhibit to or incorporated by reference in the registration statement of which the accompanying prospectus forms a part. Whenever particular defined terms are referred to in this prospectus supplement, the definitions of those defined terms are incorporated by reference in this prospectus supplement. The following description of the terms of the preferred trust securities supplements and, to the extent inconsistent with, replaces the description of the general terms of the preferred trust securities contained in the accompanying prospectus.

In this section, references to "PSEG," "we," "our" and "us" mean Public Service Enterprise Group Incorporated excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries.

#### Overview

The declaration authorizes the administrative trustees to issue on behalf of the trust the preferred trust securities and the common trust securities, which we refer to collectively as the trust securities, representing undivided beneficial ownership interests in the assets of the trust. For so long as the preferred trust securities remain outstanding, we will own, directly or indirectly, all of the common trust securities. The common trust securities rank on a parity, and related payments will be made on a proportionate basis, with the preferred trust securities. However, upon the occurrence and during the continuance of an event of default under the indenture relating to our senior deferrable notes, which we refer to as an indenture event of default, the rights of the holders of the common trust securities to receive distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the preferred trust securities. The declaration does not permit the issuance by the trust of any securities other than the trust securities or the incurrence of any indebtedness by the trust.

Under the declaration, the property trustee holds the senior deferrable notes purchased by the trust for the benefit of the holders of the trust securities. The payment of distributions out of money held by the trust, and payments upon redemption of the preferred trust securities or liquidation of the trust, are guaranteed by us to the extent described under "Description of the Guarantee" in this prospectus supplement. The guarantee, when taken together with our obligations under the senior deferrable notes and the indenture and our obligations under the declaration, and our obligation to pay costs, expenses, debts and liabilities of the trust other than with respect to the preferred trust securities, provides a full and unconditional guarantee of amounts due on the preferred trust securities. Wachovia Bank, National Association, the guarantee trustee, holds the guarantee for the benefit of the holders of the preferred trust securities. The guarantee does not cover payment of distributions when the trust does not have sufficient available funds to pay those distributions. In that case, except in the limited circumstances in which the holder may take direct action, the remedy of a holder of preferred trust

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securities is to vote to direct the property trustee to enforce the property trustee's rights under the senior deferrable notes.

Following the successful remarketing of the trust preferred securities as contemplated by this prospectus supplement, the preferred trust securities will be represented by one or more global preferred trust securities deposited with, or on behalf of, The Depository Trust Company, as depository, and registered in the name of Cede & Co., its nominee, and payments on those preferred trust securities will be made to the depository, a successor depository or, in the event no depository is used, to a paying agent for the preferred trust securities. This means that you will not be entitled to receive a certificate for the preferred trust securities that you purchase except under the limited circumstances described below under "--Book-Entry Clearance and Settlement."

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### Distributions

Following the successful remarketing of the trust preferred securities as contemplated by this prospectus supplement, distributions on the preferred trust securities will accumulate at a rate per year of % of the liquidation amount of \$50 from August 8, 2005. The amount of the distribution payable for any distribution period will be computed on the basis of a 360-day year of twelve 30-day months.

Distributions on the preferred trust securities will be cumulative and will accumulate from August 8, 2005 and will be payable semi-annually in arrears on May 16 and November 16 of each year, commencing November 16, 2005 when, as and if funds are available for payment. If any date on which distributions on the preferred trust securities are to be made is not a business day, payment of the distributions payable on that date will be made on the next succeeding day that is a business day, without any interest or other payment in respect of that delay, but if the next succeeding business day is in the next calendar year, the payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on that date. As used in this prospectus supplement, "business day" means any day other than a Saturday or a Sunday or any other day on which banking institutions in The City of New York are permitted or required by any applicable law to close.

The trust must pay distributions on the preferred trust securities on the dates payable to the extent that it has funds available in the property account for the payment of those distributions. The trust's funds available for distribution to you as a holder of the preferred trust securities will be limited to payments received from us on our senior deferrable notes. Therefore, the trust will defer payment of distributions on the preferred trust securities to the extent that we have deferred interest payments on our senior deferrable notes.

Distributions on the preferred trust securities will be payable to holders as they appear on the books and records of the trust on the relevant record dates. As long as the preferred trust securities remain in book-entry only form, the record dates will be one business day prior to the relevant payment dates. Distributions will be paid by the trust through the property trustee, who will hold amounts received in respect of our senior deferrable notes in the property account for your benefit. Subject to any applicable laws and regulations and the provisions of the declaration, each payment will be made as described under "--Book-Entry Clearance and Settlement" below. With respect to preferred trust securities not in book-entry form, the administrative trustees shall have the right to select relevant record dates, which shall be at least one business day but not more than 60 business days prior to the relevant payment dates.

Tax Event Redemption

The senior deferrable notes are redeemable at our option, in whole but not in part, on not less than 30 days' nor more than 60 days' prior written notice, upon the occurrence and continuation of a tax event under the circumstances described under "Description of the Senior Deferrable Notes--Tax Event Redemption." If we redeem our senior deferrable notes upon the occurrence and continuation of a tax event, the proceeds from that redemption shall simultaneously be applied on a proportionate basis to redeem preferred trust securities having an aggregate liquidation amount equal to the aggregate principal amount of the senior deferrable notes so redeemed at a redemption price, per preferred trust security, equal to the redemption amount plus accrued and unpaid distributions, if any, to the tax event redemption date. Those proceeds will be payable in cash to the holders of the preferred trust securities.

Redemption Procedures

If the trust gives a notice of redemption, which will be irrevocable, in respect of all of the preferred trust securities, then, by 12:00 noon, New York City time, on the redemption date, the trust will irrevocably deposit with the depository funds sufficient to pay the redemption price, but only if we have paid to the property trustee a sufficient amount of cash in connection with the related redemption or maturity of our senior deferrable notes. The trust will give the depository irrevocable instructions and authority to pay the redemption price to the holders of the preferred trust securities called for redemption.

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If notice of redemption has been given and funds deposited as required, then, immediately prior to the close of business on the date of the deposit, distributions will cease to accumulate and all rights of holders of those preferred trust securities called for redemption will cease, except for the right of the holders of those preferred trust securities to receive the redemption price without interest on the redemption date.

If any date fixed for redemption of preferred trust securities is not a business day, then payment of the redemption price payable on that date will be made on the next succeeding day that is a business day, without any interest or other payment in respect of any delay, except that if the next succeeding business day falls in the next calendar year, the payment will be made on the immediately preceding business day.

Distribution of the Senior Deferrable Notes

We will have the right at any time to dissolve the trust and, after satisfaction, or reasonable provision for satisfaction, of liabilities of creditors of the trust as provided by applicable law, to cause our senior deferrable notes to be distributed to the holders of the trust securities, but only if such dissolution does not result in a taxable event to holders of the preferred trust securities. As of the date of any distribution of senior deferrable notes upon dissolution of the trust,

- o the preferred trust securities will no longer be deemed to be outstanding,
- o with respect to any preferred trust securities held in book-entry form, the depository or its nominee, as the record holder of the preferred trust securities, will receive a registered global

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certificate or certificates representing our senior deferrable notes to be delivered by us upon the distribution,

- o any certificates representing preferred trust securities not held by the depositary or its nominee will be deemed to represent our senior deferrable notes having an aggregate principal amount equal to the aggregate liquidation amount of, with an interest rate identical to the distribution rate of, and accrued and unpaid interest equal to accrued and unpaid distributions on, those preferred trust securities until the certificates are presented to us or our agent for transfer or reissuance,
- o we will use our best efforts to list the senior deferrable notes on any exchange on which the preferred trust securities are then listed, and
- o all rights of holders of preferred trust securities, other than the right to receive the senior deferrable notes, will cease.

We cannot predict the market prices for our senior deferrable notes that may be distributed in exchange for the preferred trust securities if a dissolution of the trust were to occur. Accordingly, the senior deferrable notes that an investor may receive if a dissolution of the trust were to occur may trade at a discount to the price that the investor paid to purchase the preferred trust securities in this remarketing.

### Declaration Events of Default

An indenture event of default constitutes an event of default under the declaration, which we refer to as a declaration event of default. However, under the declaration, the holder of common trust securities will be deemed to have waived any declaration event of default with respect to the common trust securities until all declaration events of default with respect to the preferred trust securities have been cured, waived or otherwise eliminated. Until any declaration events of default with respect to the preferred trust securities have been so cured, waived or otherwise eliminated, the property trustee will be deemed to be acting solely on behalf of the holders of the preferred trust securities. Only the holders of the preferred trust securities will have the right to direct the property trustee with respect to particular matters under the declaration and, therefore, the indenture. If a declaration event of default with respect to the preferred trust securities is waived by holders of preferred trust securities, the waiver will also constitute the waiver of the declaration event of default with respect to the common trust securities without any further act, vote or consent of the holders of the common trust securities.

If the property trustee fails to enforce its rights under the declaration or our senior deferrable notes in respect of an indenture event of default after a holder of preferred trust securities has made a written request therefor, any holder of preferred trust securities may, to the fullest extent permitted by applicable law, institute a legal

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proceeding against us to enforce the property trustee's rights under the declaration or our senior deferrable notes without first proceeding against the property trustee or any other person or entity. Notwithstanding the above, if a declaration event of default has occurred and is continuing and that event is attributable to our failure to pay the principal of, or interest on, our senior deferrable notes on the date that interest or principal is otherwise payable, then you, as a holder of preferred trust securities, may directly institute a

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proceeding against us, which we refer to as a direct action, after the respective due date specified in the senior deferrable notes for enforcement of payment to you directly of the principal of or interest on the senior deferrable notes having a principal amount equal to the aggregate liquidation amount of your preferred trust securities. In connection with the direct action, we shall have the right under the indenture to set off any payment made to you. The holders of preferred trust securities will not be able to exercise directly any other remedy available to the holders of the senior deferrable notes.

Upon the occurrence of a declaration event of default, the property trustee, as the sole holder of the senior deferrable notes, will have the right under the indenture to declare the principal of and interest on the senior deferrable notes to be immediately due and payable. We and the trust are each required to file annually with the property trustee an officers' certificate as to our compliance with all conditions and covenants under the declaration.

### Book-Entry Clearance and Settlement

The preferred trust securities will be held as one or more fully-registered global preferred trust securities certificates representing the total aggregate number of preferred trust securities. DTC will act as securities depository for the preferred trust securities, and the preferred trust securities will be issued only as fully-registered securities registered in the name of Cede & Co., the depository's nominee. However, under some circumstances, the administrative trustees with our consent may decide not to use the system of book-entry transfers through DTC with respect to the preferred trust securities. In that case, certificates for the preferred trust securities will be printed and delivered to the holders.

The laws of some jurisdictions require that some purchasers of securities take physical delivery of securities in definitive form. These laws may impair the ability to transfer beneficial interests in the global preferred trust securities.

Purchases of preferred trust securities within the depository's system must be made by or through direct participants, which will receive a credit for the preferred trust securities on the depository's records. The beneficial ownership interest of each actual purchaser of each preferred trust security is in turn to be recorded on the direct and indirect participants' records. Beneficial owners will not receive written confirmation from the depository of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owners purchased preferred trust securities. Transfers of ownership interests in the preferred trust securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the preferred trust securities, except if use of the book-entry system for the preferred trust securities is discontinued.

The depository has no knowledge of the actual beneficial owners of the preferred trust securities. The depository's records reflect only the identity of the direct participants to whose accounts those preferred trust securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as the depository or its nominee is the registered holder of global preferred trust securities, the depository or the nominee will be considered the sole owner or holder of the preferred trust securities represented thereby for all purposes under the declaration and the preferred trust securities. No beneficial owner of an interest in global preferred trust

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securities will be able to transfer that interest except in accordance with the depositary's applicable procedures, in addition to those provided for under the declaration.

The depositary has advised us that it will take any action permitted to be taken by a holder of preferred trust securities, including the presentation of preferred trust securities for exchange, only at the direction of one or more participants to whose account the depositary's interests in the global preferred trust securities are credited and only

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in respect of the portion of the liquidation amount of preferred trust securities as to which such participant or participants has or have given such directions. However, if there is a declaration event of default under the preferred trust securities, the depositary will exchange the global preferred trust securities for certificated securities, which it will distribute to its participants.

Conveyance of notices and other communications by the depositary to direct participants and indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements that may be in force from time to time.

Although voting with respect to the preferred trust securities is limited, in those cases in which a vote is required, neither the depositary nor Cede & Co. will itself consent or vote with respect to preferred trust securities. Under its usual procedures, the depositary would mail an omnibus proxy to the trust as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the preferred trust securities are credited on the record date. The direct participants are identified in a listing attached to the omnibus proxy.

Distribution and other payments on the global preferred trust securities will be made to the depositary in immediately available funds. The depositary's practice is to credit direct participants' accounts on the relevant payment date in accordance with their respective holdings shown on the depositary's records unless the depositary has reason to believe that it will not receive payments on that payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in street name. Those payments will be the responsibility of the participant and not of the depositary, the trust or us, subject to any statutory or regulatory requirements to the contrary that may be in force from time to time. Payment of distributions and other amounts in respect of the global preferred trust securities to the depositary is the responsibility of the trust, disbursement of such payments to direct participants is the responsibility of the depositary, and disbursement of those payments to the beneficial owners is the responsibility of direct and indirect participants.

Except as provided here, a beneficial owner of an interest in global preferred trust securities will not be entitled to receive physical delivery of preferred trust securities in certificated form. Accordingly, each beneficial owner must rely on the procedures of the depositary to exercise any rights under the global preferred trust securities.

Although the depositary has agreed to the above procedure to facilitate transfer of beneficial interests in the global preferred trust securities among participants, the depositary is under no obligation to perform or continue to



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perform these procedures and these procedures may be discontinued at any time. Neither us, the trust nor any trustee will have any responsibility for the performance by the depositary or its participants or indirect participants under the rules and procedures governing the depositary. The depositary may discontinue providing its services as securities depositary with respect to the preferred trust securities at any time by giving reasonable notice to the trust. Under these circumstances, if a successor depositary is not obtained, preferred trust securities certificates are required to be printed and delivered to holders. Additionally, if a declaration event of default were to occur or the administrative trustees, with our consent, decide to discontinue use of the system of book-entry transfers through the depositary or any successor depositary, with respect to the preferred trust securities, certificates for the preferred trust securities will be printed and delivered to holders. In each of the above circumstances, we will appoint a paying agent with respect to the preferred trust securities. The information in this section concerning the depositary and the depositary's book-entry system has been obtained from sources that we and the trust believe to be reliable, but neither we nor the trust take responsibility for its accuracy.

Registrar, Transfer Agent and Paying Agent

Payments in respect of the preferred trust securities represented by the global certificates shall be made to the depositary. The depositary shall credit the relevant accounts at the depositary on the applicable distribution dates. In the case of certificated securities, distribution payments shall be made by check mailed to the address of each holder of record as that address appears on the register, while payments of the liquidation amount upon redemption shall be made in immediately available funds against presentation and surrender.

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The property trustee will act as registrar, transfer agent and paying agent for the preferred trust securities. The paying agent shall be permitted to resign as paying agent upon 30 days' prior written notice to the trustees. If Wachovia Bank, National Association shall no longer be the paying agent, the administrative trustees shall appoint a successor to act as paying agent, which shall be a bank or trust company.

Registration of transfers of preferred trust securities will be made without charge by or on behalf of the trust. However, payment shall be made and any indemnity as the trust or we may reasonably require shall be given in respect of any tax or other government charge which may be imposed in relation to it.

Miscellaneous

The administrative trustees are authorized and directed to operate the trust in a way that the trust will not be required to register as an "investment company" under the 1940 Act or be characterized as other than a grantor trust for United States federal income tax purposes. We are authorized and directed to conduct our affairs so that the senior deferrable notes will be treated as our indebtedness for United States federal income tax purposes. In this connection, we and the administrative trustees are authorized to take any action not inconsistent with applicable law, the declaration, the certificate of trust of the trust or our certificate of incorporation, that we and the administrative trustees determine in our discretion to be necessary or desirable to achieve that end, as long as that action does not adversely affect the interests of the holders of the preferred trust securities or vary its terms in any material respect.

DESCRIPTION OF THE SENIOR DEFERRABLE NOTES

The following description is a summary of the terms of our senior deferrable notes. It supplements the description of the debt securities in the accompanying prospectus and, to the extent inconsistent with, replaces the description in the accompanying prospectus. The senior deferrable notes were issued under an indenture dated as of November 1, 1998, as supplemented from time to time, between us and Wachovia Bank, National Association (formerly known as First Union National Bank), as indenture trustee. The descriptions in this prospectus supplement and the accompanying prospectus contain a description of the material terms of the senior deferrable notes and the indenture but do not purport to be complete, and reference is hereby made to the indenture (and any supplemental indenture thereto) and the form of senior deferrable note that have been filed as exhibits to or incorporated by reference in the registration statement and to the Trust Indenture Act.

In this section, references to "PSEG," "we," "our" and "us" mean Public Service Enterprise Group Incorporated excluding, unless otherwise expressly stated or the context otherwise requires, its subsidiaries.

General

The senior deferrable notes are our direct, unsecured senior obligations and rank without preference or priority among themselves and equally with all of our existing and future unsecured and unsubordinated indebtedness. The senior deferrable notes are limited in aggregate principal amount to \$474,226,850, such amount being the sum of the aggregate liquidation amounts of the preferred trust securities and the common trust securities.

The senior deferrable notes are not subject to a sinking fund provision. Unless a tax event redemption occurs, the entire principal amount of the senior deferrable notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on November 16, 2007.

We have the right to dissolve the trust and cause the senior deferrable notes to be distributed to the holders of the trust securities. If the trust is dissolved (other than as a result of a tax event redemption), you will receive your pro rata share of the senior deferrable notes held by the trust (after any creditors of the trust have been paid).

If the senior deferrable notes are distributed to the holders of the trust securities in liquidation of such holders' interests in the trust, the senior deferrable notes will initially be issued in the form of one or more global certificates deposited with the depository. Under certain limited circumstances, the senior deferrable notes may be issued in certificated form in exchange for the global certificates. In the event that the senior deferrable notes are issued in certificated form, the senior deferrable notes will be in denominations of \$50 and integral multiples thereof and may be transferred or exchanged at the offices described below. Payments on senior deferrable notes issued as global certificates will be made to the depository, a successor depository or, in the event that no depository is used, to a paying agent for the senior deferrable notes. In the event the senior deferrable notes are issued in certificated form, principal and interest will be payable, the transfer of the senior deferrable notes will be registrable and the senior deferrable notes will be exchangeable for senior deferrable notes of other denominations of a like aggregate principal amount at the corporate trust office or agency of the indenture trustee in the Borough of Manhattan, The City of New York; provided that at our option, payment of interest may be made by check. Notwithstanding

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the foregoing, so long as the holder of any senior deferrable notes is the property trustee, we will make payment of principal of, and interest on, the senior deferrable notes held by the property trustee in immediately available funds at such place and to such account as may be designated by the property trustee.

The indenture does not contain provisions that afford holders of the senior deferrable notes protection in the event we are involved in a highly leveraged transaction or other similar transaction that may adversely affect such holders. We and the trust will treat the senior deferrable notes as our indebtedness for all United States tax purposes. There is, however, no statutory, administrative or judicial authority that directly addresses this treatment.

### Interest

Following the successful remarketing of the preferred trust securities as contemplated by this prospectus supplement, each senior deferrable note will bear interest at the rate of % per year from and including August 8, 2005. Subject to the deferral provisions set forth in the next succeeding paragraph, interest on the senior deferrable notes will be payable semi-annually in arrears on May 16 and November 16 of each year, commencing

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November 16, 2005, to the persons in whose names such senior deferrable notes are registered, subject to certain exceptions, at the close of business on the business day preceding such interest payment date. In the event the senior deferrable notes do not remain in book-entry only form, the record date will be fifteen business days prior to each interest payment date. We refer to each date on which interest is payable on the senior deferrable notes as an interest payment date.

The amount of interest payable on the senior deferrable notes for any interest payment period will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the senior deferrable notes is not a business day, then payment of the interest payable on such date will be made on the next day that is a business day (and without any interest or other payment in respect of any such delay), except that, if the next business day is in the next calendar year, then such payment will be made on the preceding business day.

### Option to Defer Interest Payments on the Senior Deferrable Notes

So long as no indenture event of default has occurred and is continuing, we have the right under the indenture at any time during the term of the senior deferrable notes to defer the payment of interest for a period not extending beyond the maturity date or earlier redemption of the senior deferrable notes. We refer to any such period of deferral as an "extension period." During an extension period, the trust will no longer have sufficient funds to make semi-annual distribution payments on the preferred trust securities, but such distribution payments will continue to accrue. At the end of an extension period, we must pay all interest then accrued and unpaid (together with accrued interest at %, compounded on each succeeding interest payment date) to the trust. At the end of an extension period, the trust will make all unpaid distributions (together with accrued distribution payments at %, compounded on each succeeding payment date) to holders of the preferred trust securities.

During any extension period, we may not take any of the prohibited actions described under "--Covenants of PSEG." Prior to the expiration of any extension

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period, we may further extend the extension period but not beyond the maturity date or earlier redemption of the senior deferrable notes. Upon the termination of any extension period and the payment of all amounts then due on any interest payment date, we may elect to begin a new extension period, subject to the same requirements as described above. No interest will be due and payable during an extension period except that, at the end thereof, we at our option may pay on any interest payment date all or any portion of the interest accrued during the elapsed portion of the extension period. We must give the indenture trustee written notice of our election to begin (or further extend) any extension period at least ten business days prior to the earlier of:

- o the date the interest on the senior deferrable notes would have been payable except for the election to begin or extend the extension period;
- o the date the indenture trustee is required to give notice to any securities exchange or to holders of the senior deferrable notes of the record date or the date the interest is payable; and
- o the record date.

The indenture trustee must give notice of our election to begin or continue an extension period to the holders of the senior deferrable notes. There is no limitation on the duration of an extension period or the number of times that we may elect to begin an extension period.

### Covenants of PSEG

We will covenant that during an extension period or during the continuance of an indenture event of default, we will not:

- o redeem, purchase, acquire, or make a liquidation payment with respect to, any of our capital stock;
- o declare or pay dividends or distributions in our capital stock;
- o make any distribution on any security of a grantor trust which ranks pari passu with the preferred trust securities or pay interest on our senior debt with similar deferral provisions to the senior deferrable notes; or

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- o make any payment of principal, interest or premium, if any, on or repay, repurchase or redeem any debt securities that rank subordinate in right of payment to the senior deferrable notes or make any guarantee payments with respect to any guarantee by us of the debt of any subsidiary of ours if such guarantee ranks subordinate in right of payment to the senior deferrable notes.

However, even during such circumstances, we may:

- o purchase or acquire our capital stock in connection with the satisfaction by us of our obligations under any employee or director compensation or benefit plans, under our direct stock purchase and dividend reinvestment plan, or pursuant to any contract or security outstanding on the first day of any such event requiring us to purchase our capit